

Message Text

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TAGS: EAIR, CA

SUBJ: CIVAIR: AIR FARES AND THE ANTI-INFLATIONPROGRAM

REF: OTTAWA 0368

1. SULLIVAN (CHIEF, FARES RATES AND SERVICE DIVISION, AIR TRANSPORT COMMITTEE) ADVISED TCO JANUARY 30 THAT NO COMMISSION ORDER APPROVING CHARTER FARE INCREASES WILL BE PUBLISHED. APPROVAL WAS CONVEYED BY TELEX TO INDIVIDUAL CANADIAN CARRIERS WHO HAD FILED INCREASES, FARES THEMSELVES WILL APPEAR IN DUE COURSE IN AIR TARRIFF CORPORATION'S ADVANCED BOOKING CHARTER TARIFF #1, CTC (A) #35 AND, OF COURSE, WILL BE BINDING ON FOREIGN AIR CARRIERS OPERATING CHARTERS TO/FROM CANADA. DEPARTMENT WILL RECALL ATC RULE WHEREBY TARIFFS APPROVED FOR CANADIAN CARRIERS SERVE AS FLOOR LEVELS FOR FOREIGN CARRIERS.

2. IN COURSE OF CONVERSATION, SULLIVAN ALLUDED TO DIFFICULTIES CTC HAD IN JUDGING THESE PROPOSED INCREASES IN RELATION TO BOTH TRADITIONAL CRITERIA AND MORE RECENT ANTI-INFLATION GUIDELINES. FORMER INVOLVE JUDGEMENT AS TO JUSTNESS AND REASONABLENESS"

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OF PROPOSED FARES AND RATE OF RETURN ON INVESTMENT IS AN IMPORTANT ELEMENT IN THE JUDGMENT. ANTI-INFLATION

GUIDELINES, HOWEVER, PERMIT ONLY PASSING ON OF COST INCREASES AND DO NOT ALLOW AN IMPROVEMENT OF PROFIT. COMMITTEE WAS ABLE TO RECONCILE THE TWO STANDARDS IN THIS CASE AND THUS APPROVE THE INCREASES.

3. HE ALSO MENTIONED THAT THE CTC IS PRESENTLY ATTEMPTING TO DETERMINE THE APPLICABILITY OF THE GUIDELINES TO INTERNATIONAL RATES, INCLUDING THOSE OF TRANS-BORDER SERVICES. THE EXERCISE IS NOT SUFFICIENTLY ADVANCED FOR HIM TO HAVE AN OPINION AS TO ITS OUTCOME. HOWEVER, SULLIVAN INDICATED HE WAS A BIT WORRIED ABOUT THE POSSIBILITY OF A SITUATION ARISING IN WHICH A U.S. CARRIER INITIATED A FARE INCREASE WHICH WAS MATCHED BY THE COMPETING CANADIAN CARRIER AND THE COMMISSION HAD TO FIND THAT THE CANADIAN CARRIER'S APPLICATION COULD NOT BE APPROVED BECAUSE OF THE ANTI-INFLATION GUIDELINES. TCO INDICATED THAT IF CTC FELT OBLIGED TO ADOPT A POLICY RELATING TO INTERNATIONAL, AND ESPECIALLY TRANS-BORDER, RATES IN RELATION TO THE GUIDELINES USG MIGHT HAVE AN INTEREST IN THE MATTER AND THEREFORE SOME ADVANCE CONSULTATIONS MIGHT BE IN ORDER. SULLIVAN NOTED THE POINT.

4. COMMENT: THE GOC'S ANTI-INFLATION PROGRAM IS SCHEDULED BY LEGISLATION TO BE IN EFFECT FOR THREE YEARS UNTIL DECEMBER 1978. THIS IS A SUFFICIENTLY LONG PERIOD FOR A POLICY TO BE DEVELOPED AND IMPLEMENTED WITH RESPECT TO TRANS-BORDER AIR FARES. GOC ANTI-INFLATION BOARD (AIB) HAS YET TO MAKE FORMAL DECISION ON SPECIFIC INSTANCES OF PRICE INCREASES, AND SOME GOC AGENCIES AND CROWN CORPORATIONS HAVE ANNOUNCED INCREASES WITHOUT APPARENT REFERENCE TO BOARD. IT IS STILL UNCLEAR WHAT PRECEDENTS BOARD WILL SET FOR PRICE INCREASES REGULATED BY OTHER GOVERNMENT AGENCIES ALTHOUGH THEY ARE SUBJECT TO BOARD GUIDELINES. AIR CANADA IT WILL BE NOTED IS A CROWN CORPORATION AND LIKE OTHER CARRIERS MUST HAVE ITS FARES APPROVED BY THE CTC. LIKE OTHER BUSINESSES IT IS SUBJECT TO THE ANTI-INFLATION BOARD. THE TRIANGULAR RELATIONSHIP
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BETWEEN CROWN CORPORATIONS, TRADITIONAL REGULATORY AGENCIES, AND THE AIB IS NOT CLEAR. (FOR OTHER INFO ON THIS TANGLED SUBJECT SEE OTTAWA 3931 AND SUBSEQUENT MESSAGES). JOHNSON

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